HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Ottawa*

CANADA MORTGAGE AND HOUSING CORPORATION

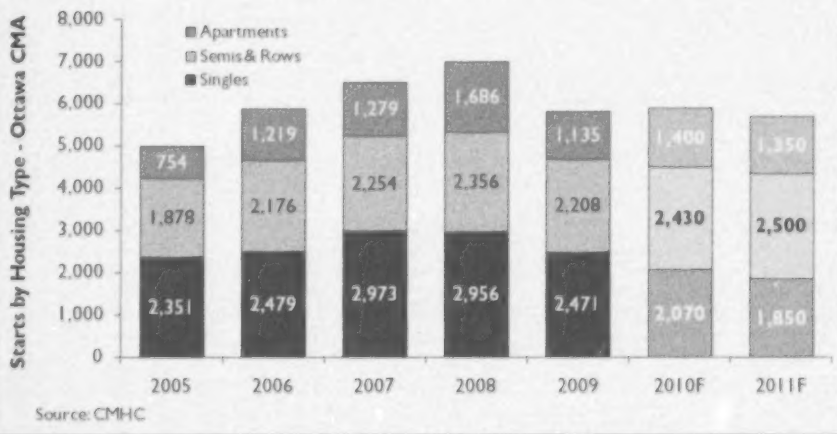
Date Released: Fall 2010

Market at a Glance

- MLS® sales will fall slightly by 5 per cent from 2009's record year and moderate further in 2011, while average prices will increase this year and next.
- Employment gains will be offset by rising mortgage carrying costs helping stabilize sales later this year and into 2011 from a robust pace early this year.
- After a strong start, housing starts will finish 2010 slightly ahead of last year prior to moderating in 2011.
- Average weekly earnings will close marginally higher this year compared to 2009. These levels will continue to support housing activity in the Ottawa CMA as 2011 will show an increase of 4 per cent.

Figure 1

New Home Construction to Decline Slightly in 2011



Source: CMHC

The forecasts included in this document are based on information available as of October 8, 2010.

*Ontario part of Ottawa-Gatineau CMA

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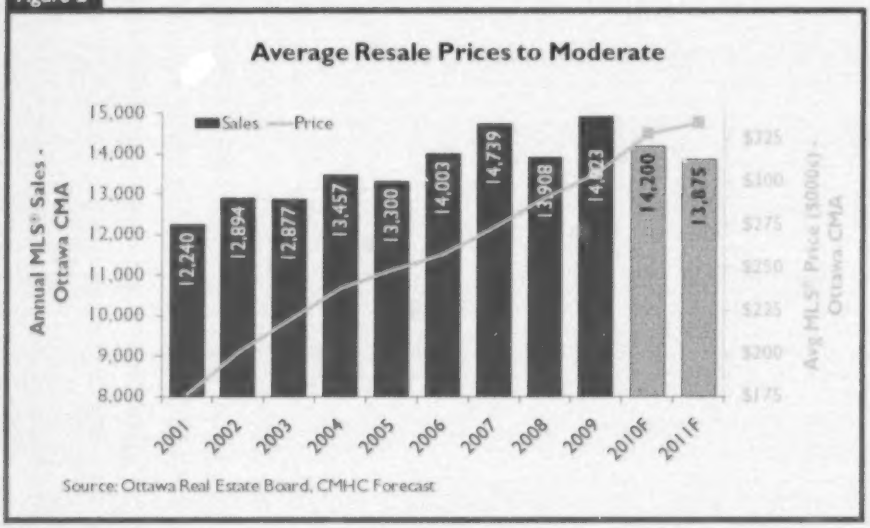
Figure 2



Resale Market

MLS®[1] sales to decrease this year and into 2011

Although 2010 activity started at an exceptional pace, sales have subsequently moderated and are expected to stabilize later this year and into 2011. Improving economic conditions have resulted in the Bank of Canada increasing its overnight lending rate on three occasions since June. Further increases in 2011 will raise carrying costs, particularly on the variable-rate front, and consequently will take some steam out of the market.

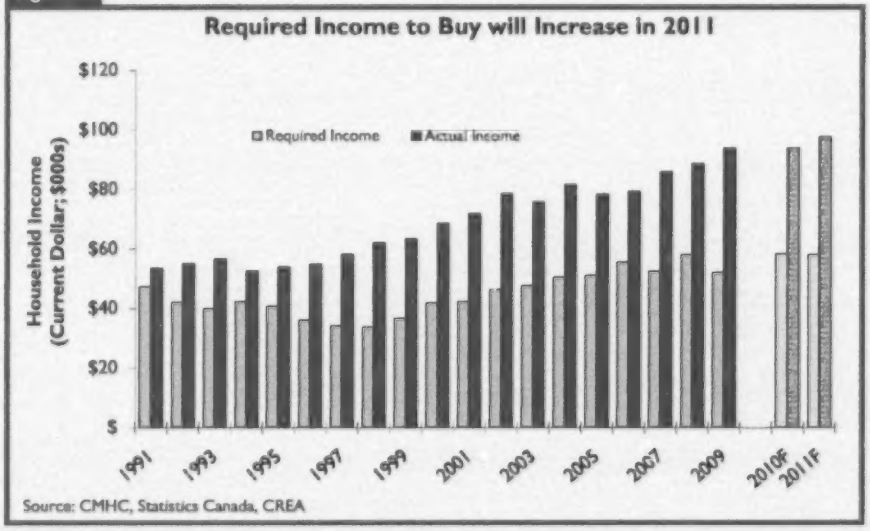
The strength witnessed in the early stages of this year was due to a combination of factors, including the introduction of the Harmonized Sales Tax, historically low mortgage rates, changes to mortgage lending rules and overall solid employment earnings levels in Ottawa CMA. This created a scenario whereby buyers were looking at purchasing homes earlier in the year, thus bringing forward transactions in order to alleviate the impact of these factors. As a consequence, the second half of the year will close with lower numbers. Although the Capital City will see lower sales next year when compared with two very strong years, the market will have stabilized and 13,875 transactions are expected.

Trend towards balanced market

Although market conditions for housing are still robust, there is evidence that they are beginning to soften. The seasonally-adjusted sales-to-new listings ratio which measures the balance between demand and supply currently sits at the low end of a seller's market, hovering just above the balanced territory. Lighter sales and an increasing supply will translate into less pressure on the market, and consequently Ottawa's average resale price will end the year at $328,000.

Moving forward into next year, sales will decrease marginally and listings will continue in a slight increasing trend, as more and more consumers will take advantage of rising housing prices by listing their homes for sale. The combination of these two factors will position the sales-to-new

Figure 3



[1] MLS® is a registered trademark of the Canadian Real Estate Association.

Figure 4

Source: Ottawa Real Estate Board; Seasonal adjustment and forecast ranges calculated by CMHC
*January to October

listings ratio in the balanced territory, mitigating price growth in Ottawa in 2011. The forecast is for the average MLS® price to growth next year at the rate of inflation.

Popularity of downtown core continues

Sales in the downtown core will continue to outpace other regions in the city, supporting high density development particularly in the core. This will continue to attract professionals with high income levels to the core, causing downtown prices to rise. Anticipate the Ottawa area to be central to the hiring of new employees.

Rising home prices in all regions in Ottawa will likely affect the ability of some consumers to afford a home, especially as the expectation of rising long-term interest rates will affect their borrowing capacity. Consequently, the gap between required[2] and actual income will also impact housing demand next year, as the difference between the two narrows. In addition, an increase in the number of listings will translate into more choice for consumers and therefore help to pull in the rate of price growth of housing in Ottawa.

New Home Market

Housing starts to remain stable

Ottawa will experience a slight resurgence in starts in 2010, closing the year at 5,900 units. Moving forward into 2011, expect to see restraint in the single-family segment, with semi-detached homes and apartments continuing to increase. Townhomes will lead the way in overall construction this year as the trend in Ottawa continues to shift toward multiple-unit structures, which have taken on a larger percentage of new homes being built relative to singles. The combined construction of less expensive new semi-detached, row units and apartments will amount to over 60 per cent of the total number of units in 2010 and a similar count is expected next year.

Fewer single-family starts

Stronger activity early this year will translate into slightly higher levels of housing construction for 2010; however, increasing mortgage rates projected for 2011 along with higher housing prices will reduce the demand for single-detached homes next year. This will translate into consumers choosing other forms of affordable housing, such as townhouses and condominiums. Therefore, single-detached housing starts are forecast to reach just over 2,000 units by the end of the year and they will decrease further by over 10 per cent in 2011. The percentage of single construction will continue to fade in the next several years to a point where singles will occupy less than four out of every 10 homes in the Capital City.

While the construction of single detached homes continues to occur throughout the region, a large proportion of them will continue to be concentrated in the outskirts. Expect the former cities of Nepean, Cumberland and the combined areas of West Carleton, Clarence-Rockland and Russell to absorb a larger share of activity. Alternatively, the former City of Ottawa had one of the lowest number of new single-family starts, and the second highest number of multi-family starts than any other part of the city.

[2] Required income is carrying costs on average-priced MLS home divided by 32 per cent. Actual income is average household income – 2009 to 2011 estimated using actual and forecast changes in average weekly earnings. Carrying costs based on, 10 per cent down payment, average posted fixed 5-year mortgage rates and 25-year amortization from 1991-2006, 40-year amortization for 2007, 35-year amortization after 2007.

Shift to high-density homes

With the average price of a single family home reaching higher levels, many potential home buyers are looking for more affordable housing, seeking accommodations in condominium housing market, particularly apartments or townhouses. The growing number of senior and empty-nester households in the region is translating into more demand for condominium-style living. With that, expect this type of dwelling to post strong growth in demand in 2010.

The generational shift will also provide a sound base for demand for these types of dwellings as more baby boomers enter the empty-nester stage. Some younger urban professionals are also choosing condominiums as a preferred choice of housing. Lifestyle and proximity to cultural amenities, services and restaurants become prevalent factors in the decision on what type of dwelling to purchase.

The impact of residential intensification

According the City of Ottawa Official Plan, one of the key directives is to "grow in, not out." Intensification refers to the building of urban development within existing areas. This will provide more new development to certain areas of the Ottawa region that have existing infrastructure that could be utilized for higher-density residential housing units and are close to existing transit. Therefore, developers will continue to integrate infill projects with the primary goal of achieving denser, well-designed projects that conform to the growth plan.

Economic Overview

Pace of recovery will be gradual

Ottawa's resilience is due in part to the fact that its economic structure is very well diversified, allowing it to weather the storm far better than other cities that were heavily reliant on very few industries or sectors. Although it experienced a decline in the overall number of people working in 2009, employment has grown steadily in almost every month of 2010. Ottawa's economy has regained all of the lost jobs in 2009, which bodes well with the prospect of increasing employment levels.

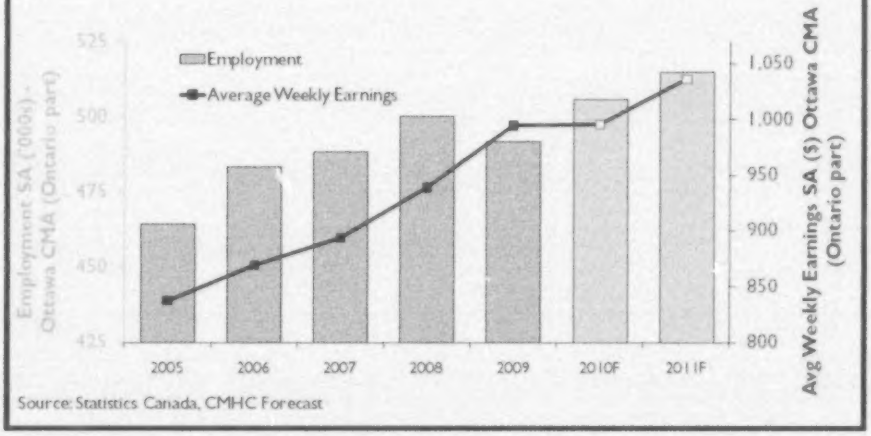
When looking ahead to future unemployment levels, the Capital City will witness a small increase towards the end of 2010. This can be directly attributed to the increase in the labour force as more people will be looking for work. In 2011, as employment growth surpasses labour force growth, expect the unemployment rate to decrease slightly. Consequently, employment next year will edge higher, which will translate more disposable income for the average consumer.

Additionally, average weekly earnings will close this year flat compared to 2009; however, Ottawa will see a more conventional, yet significant, 4.1 per cent growth in average labour income next year. This high level of earnings will keep the strength of economic activity that will support its housing market. Nevertheless, with the prospect of increased borrowing costs, reduced pent-up demand will gradually reduce the number of purchase agreements entered into in 2011.

The Public Administration sector was the catalyst for increased employment at the beginning of this year. Nevertheless, it has been the private sector that has done most of the

Figure 5

Employment in Ottawa will continue to rise



Source: Statistics Canada, CMHC Forecast

[3] Finance, Insurance and Real Estate.

hiring over the last several months, primarily the trade and FIRE[3] sectors. To reiterate, job gains were spread out over most sectors of Ottawa's economy and this trend will continue into next year.

Migration

Although overall migration to the Ottawa area was lower in 2009, expect this trend to revert back to 2007-2008 levels. While migration levels retreated last year in conjunction with the global economic slowdown, the Capital of Canada continues its net positive migration. The main reasons for the increasing proportion of international migrants that make Ottawa their home are based on Ottawa's average weekly income that continue to rise. High incomes combined with well established social networks attract these individuals to take up new residence here, thus providing a positive impact on the rental market. This will eventually lead them to become homeowners as immigrant families make the transition to home ownership.

In the last months, the participation rate remained at high levels and represents one of the highest rates in Ontario as well as the highest it has been in Ottawa in recent years. Such a high participation rate signifies tight local labour market conditions, where increasing wages and a market increasingly forced to draw people from outside of the city to fill the demand for employees is anticipated. Expect net positive migration to the Ottawa region as a result of more people moving in from other provinces and within Ontario to take advantage of local job growth.

Mortgage rate outlook

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Forecast Summary Ottawa CMA Fall 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	14,739	13,908	14,923	14,200	-4.8	13,875	-2.3
MLS® New Listings	22,477	24,196	22,290	24,250	8.8	24,750	2.1
MLS® Average Price ($)	273,058	290,483	304,801	328,000	7.6	334,500	2.0
New Home Market							
Starts:							
Single-Detached	2,973	2,956	2,471	2,070	-16.2	1,850	-10.6
Multiples	3,533	4,042	3,343	3,775	12.9	3,750	-0.7
Semi-Detached	300	213	299	325	8.7	300	-7.7
Row/Townhouse	1,954	2,153	1,909	2,200	15.2	2,150	-2.3
Apartments	1,279	1,676	1,135	1,250	10.1	1,300	4.0
Starts - Total	6,506	6,998	5,814	5,900	1.5	5,700	-3.4
Average Price ($):							
Single-Detached	396,762	408,991	406,647	422,750	4.0	437,500	3.5
Semi-Detached	311,287	322,870	382,294	375,000	-1.9	385,000	2.7
Median Price ($):							
Single-Detached	364,900	369,900	382,900	407,000	6.3	420,000	3.2
Semi-Detached	265,700	292,720	333,028	340,000	2.1	350,000	2.9
New Housing Price Index (% chg) (Ottawa-Gatineau)	1.8	3.8	1.5	4.0	-	3.5	-
Rental Market							
October Vacancy Rate (%)	2.3	1.4	1.5	1.7	0.2	1.2	-0.5
Two-bedroom Average Rent (October) ($)	961	995	1,028	1,065	3.6	1,105	3.8
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	488,200	500,000	491,600	506,500	3.0	515,100	1.7
Employment Growth (%)	1.1	2.4	-1.7	3.0	-	1.7	-
Unemployment rate (%)	5.1	4.9	5.6	6.2	-	5.9	-
Net Migration	5,815	9,209	9,533	9,750	2.3	10,000	2.6

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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